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UNCLAS HARARE 000752

SIPDIS

SENSITIVE

STATE FOR AF/S  
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER  
USDOC FOR 2037 DIEMOND  
PASS USTR FLORIZELLE LISER  
TREASURY FOR ED BARBER AND C WILKINSON  
STATE PASS USAID FOR MARJORIE COPSON

[E. O. 12958](#): N/A

TAGS: [EPET](#) [ECON](#) [EINV](#) [ETRD](#) [ZI](#)

SUBJECT: GOZ hikes fuel price again

[1](#). (U) Summary: In an attempt to alleviate severe shortages, the GOZ has approximately tripled gas and doubled diesel prices. Economic impact will be substantial. End Summary.

[2](#). (U) Ledged petrol's controlled price rises Z\$ 145 to 450 and diesel Z\$ 119 to 200. It was a politically-charged act that Zimbabwe's business community has lobbied hard for. Since the Zimdollar began a steep slide and Libya halted fuel deliveries in late 2002, Zimbabweans have grown accustomed to waiting days, even weeks, for subsidized fuel. Nearly all serious businesses and organizations already import fuel at international rates.

[3](#). (U) Time will tell if today's price hikes shrink fuel queues. Pent-up demand is enormous. At Z\$ 450 (US\$ .33)/liter, some Zimbabwean motorists will be unable to afford fuel. To assist commuter vans and lessen residue on poorer Zimbabweans, the GOZ left diesel at the highly-subsidized rate of Z\$ 200 (US\$ .15)/liter.

[4](#). (SBU) Comment: With today's decision, the GOZ continues its slow-footed steps toward economic liberalization. It's the latest in a series of recent positive moves, but - in isolation - too little to stem the country's rapid economic descent. We will continue to analyze the repercussions as the dust settles, but offer a few initial observations:

- The GOZ is still unwilling to get out of the fuel-subsidy business, a practice it can no longer afford. At Z\$ 600-650, the industry estimates that Zimbabwean consumers will pay international rates. At the new prices, at least, the GOZ can subsidize a greater amount of fuel or divert resources to food and energy.

- The increase will yank Zimbabwe's 228 percent inflation rate upward. The GOZ's oft-stated goal of double-digit inflation by the year's end is further out of reach.

- Mounting inflation will make it even harder for producers to sell at controlled prices. The GOZ will be under heavier pressure to relax price controls.

- Although people here will find these prices hard to stomach, President Mugabe has provided no leadership through public appearances or statements to guide the country through this painful transition. Economic distortions, such as the fuel subsidy, conceal Zimbabweans' impoverishment. Each time the price of a commodity nears international norms, Zimbabweans appreciate more fully how their wealth has plummeted. This realization may cause them to turn on the Government that brought this about, possibly translating into support for the opposition Movement for Democratic Change's recent calls for mass action.

Sullivan